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ABSTRACT

This book provides an indepth description and analysis of financial management and budgetary procedures for education in Kyrgyzstan. The case of this country is interesting for practitioners and researchers due to its policy of accelerated transition to a market economy, with associated hardships for educational finance and budgeting. Kyrgyzstan was obliged to make all possible efforts to pass through the difficulties and constraints of the transition period as quickly as possible to sustain the previous level of educational development and standards, and to achieve rapid transformation of the mechanisms of educational finance. This case study provides examples of application of "program-budgeting" techniques in education, global ceilings to replace the obsolete norms for budget estimates, measures for strict control over expenditure, fiscal discipline, cost-reduction, cost-sharing, and income-generation, as well as private education development. Appendices contain charts describing the organization of the Ministry of Education, Science, and Culture, and institutions under its supervision, and information on the Kyrgyz system of education. (Contains 10 tables.) (RT)

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Financial management of education systems

Educational financing and budgeting in Kyrgyzstan

Symbat Dj. Rysalieva and Gulmira A. Ibraeva

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Working document

Capacity building in budgetary procedures for education in Central Asia and Mongolia

Educational financing and budgeting in Kyrgyzstan

by

Symbat Dj. RYSALIEVA
and Gulmira A. IBRAEVA

Paris 1999

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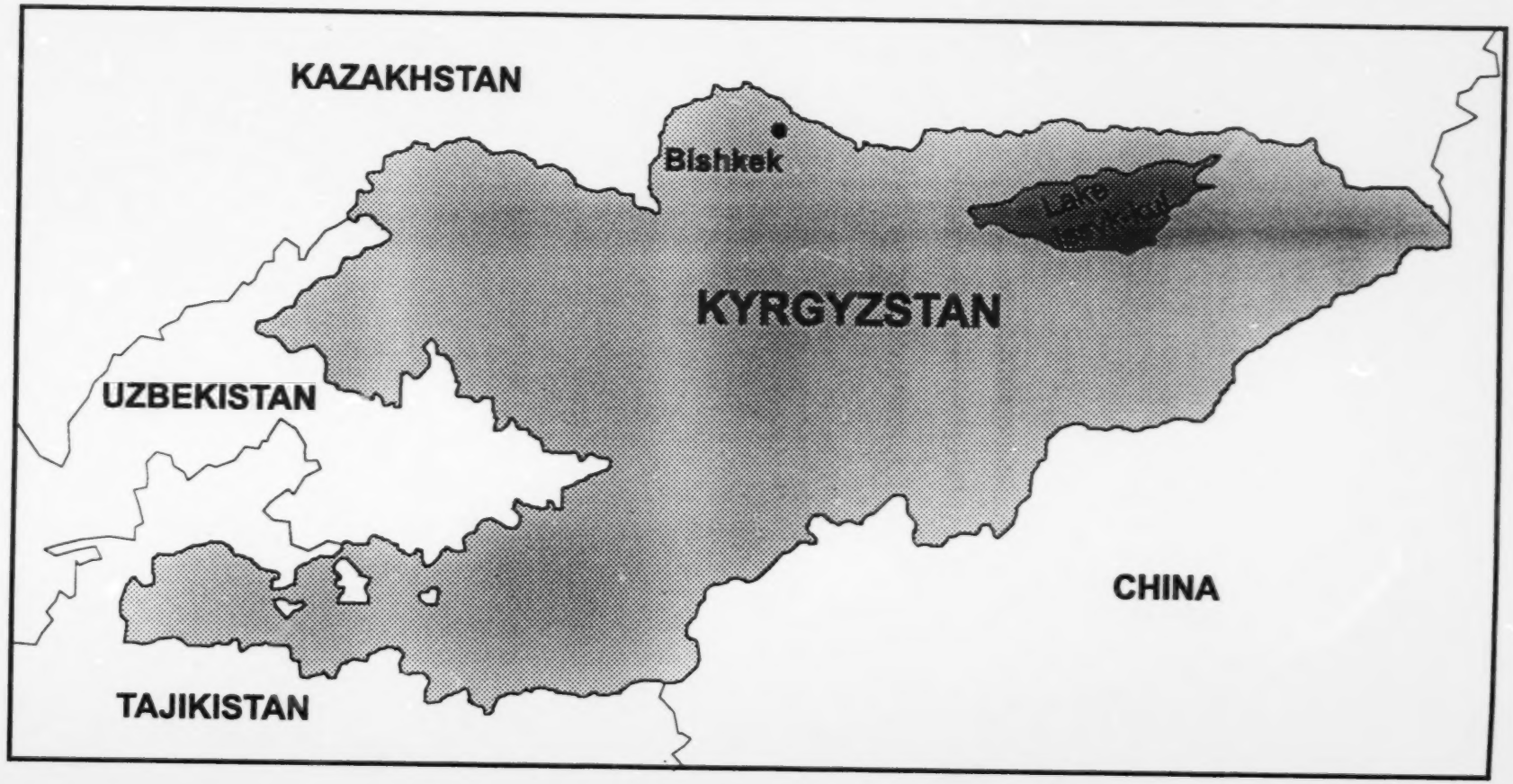
List of abbreviations

ADB	Asian Development Bank
GDP	Gross domestic product
GNP	Gross national product
IMF	International Monetary Fund
NGO	Non-governmental organization
UNDP	United Nations Development Programme
UNICEF	United Nations International Children's Fund



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Introduction

The following report was prepared within the International Institute for Educational Planning's (IIEP) research project on capacity building in budgetary procedures for education in Central Asian countries and Mongolia.

This national report, on the analysis of procedures in financial management and budgeting in education in Kyrgyzstan, was prepared by Ms Symbat Rysalieva, Head of Department, Ministry of Finance, Kyrgyzstan and Ms Gulmira A. Ibraeva, Deputy Head of the Economics Department, Ministry of Education, Science and Culture, Kyrgyzstan. Their motivation and skills were essential for preparing this monograph to ensure its quality and coherence.

At the IIEP, Serge Peano and Igor Kitaev, Programme Specialists, guided the project and co-ordinated its organization and implementation.

The IIEP wishes to express their thanks to the Dutch Ministry of Foreign Affairs in The Hague.

The context and rationale of the project, its description and methodology, as well as the country profile of Kyrgyzstan are discussed below.

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Country profile of Kyrgyzstan

Kyrgyzstan is one of the Central Asian countries of the former Soviet Union. Together with other countries of the region it became independent in 1991. Unlike the neighbouring countries, which have more territory, population, mineral resources, and industrial bases, Kyrgyzstan is a small mountainous republic mostly dependent on domestic agriculture and foreign assistance. Regarding critical economic and social indicators and standards, Kyrgyzstan was far below its neighbours in the region, and similar countries within its income bracket. Kyrgyzstan has traditional historical and cultural links with large, neighbouring Kazakhstan that in recent years has strengthened both politically and economically.

At present, Kyrgyzstan has a population of about 5 million – the lowest in Central Asia. The average, annual, population growth rate from 1980–1996 was 1.4 per cent. The expected average, annual, population growth rate for the period 1996-2010 is 1.1 per cent.

In 1996, Kyrgyzstan's gross national product (GNP) was estimated at US$2.5 billion, which was the lowest in the Central Asian region, with the exception of Tajikistan, troubled as it was by civil war. GNP per capita in Kyrgyzstan in 1996 was US$550, ranking it 93rd in the world, according to the World Bank classification. Kyrgyzstan is still a predominantly agricultural country, where a majority of its population is employed on farms or in related services.

Situated at the crossroads of the Great Silk Route, ethnically the Kyrgyz population have obscure origins that are normally associated with a nomadic, Sunni Moslem people who speak a Turkish language. Due to severe climatic and other natural conditions, the majority of population used to live in valleys along rivers and lakes, in isolated communities and villages. But nowadays over 40 per cent is estimated to be urban.

Of all the Central Asian countries, the Kyrgyz economy has borne some of the worst hardships since the economic and political collapse of the former Soviet Union. In 1993, advised and supported by the IMF, Kyrgyzstan withdrew from the rouble zone and introduced its own national currency, the som. The accelerated transition to a market economy, supported by the IMF and other donors, helped its relative stability and exchange rate strength. From 1997-1998, its exchange rate was US$1:19 Kyrgyz som (this is to help the reader to convert and analyze educational expenditure in US dollars).

Faced with a seriously deteriorating economic environment, related to the transition to a market economy, Kyrgyzstan had to undergo economic and social reforms faster than its better-off neighbours and other economies in transition, in order to achieve results. Being a more compact, subsistence, agriculture-based economy, Kyrgyzstan passed through the perils of the structural adjustment more easily and quickly than many other countries of the former Soviet Union. In the Central Asian region, it was the first country to recover from the economic recession of the early 1990s and to attain positive economic growth. Between 1995 and 1996, average annual growth of the Kyrgyz GNP was 5.5 per cent, while average annual GNP per capita growth for the same period was 4.1 per cent.

The indigenous population rapidly adjusted to the painful features of the transitional period – the astronomical rate of inflation, price hikes, increasing unemployment, bankruptcy and closure of public sector enterprises, and arrears in the payment of civil servants' wages and salaries, including those of teachers. In 1993, according to some surveys, 40 per cent of the Kyrgyz population lived below the poverty line, (this included the 48.1% living in rural areas). The World Bank, UNDP and other foreign donors and NGOs helped the Kyrgyz government in the 90s to introduce 'safety nets' and micro-credit schemes.

By 1996 and 1997, Kyrgyzstan showed the highest rate of GDP growth amongst all Central Asian countries and those of the former Soviet Union: 7.1 per cent in 1996 and 10.4 per cent in 1997. This strong recovery in Kyrgyzstan was largely due to agriculture, (since this sector accounts for a sizeable share of the country's GDP). Total output increased by 15 and 10 per cent in 1996 and 1997, respectively. The most notable achievement of the government's fiscal policy has been the reduction in expenditure levels: from 39 per cent of the GDP in 1993 to 26 per cent of the GDP in 1997. For expenditure management and control in 1998, the Ministry of Finance set global expenditure ceilings for all 'line' ministries, abandoning the practice of budget preparation based on unrealistic norms. The latter had previously impeded the prioritizing of activities and had resulted in inflated draft budget proposals. Due to its successful implementation of the structural adjustment programmes, Kyrgyzstan is often viewed as a 'showcase' for market reforms in Central Asia.

The country could not escape from the effects of the Asian and Russian financial crises of 1997-1998, but the negative impact of external shocks was much less dramatic than in other parts of the former Soviet Union.

In terms of foreign economic and financial assistance, Kyrgyzstan is more dependent than any other country in the Central Asian region. In 1996, it received US$51 per capita (about 14% of its GNP for that year). This made the aid dependency ratio, as a percentage of gross domestic investments in 1996, reach 70 per cent. Following several years of large current account deficits, the current account balance was reduced to 8 per cent of the GDP in 1997, a level consistent with the external financial flows received by the government budget.

Educational policy in Kyrgyzstan

Since 1991, the educational policy in newly independent Kyrgyzstan had to address major issues of concern: the deterioration of the key indicators of internal efficiency in education; decreasing adult literacy rates; shrinking public funding in real terms; delays and arrears in teacher salaries and student fellowships; the closure of a number of pre-school and vocational education institutions; savings and budget cuts in all non-essential categories of educational expenditure (non-teaching staff, maintenance, utilities, school meals, etc.).

Since its independence in 1991, Kyrgyzstan's educational policy has been a pioneering one, based on openness towards market and democratic reforms and the indigenous life style of its population. The 1992 New National Law on Education included many major changes, such as private and fee-paying education, cost sharing and cost recovery in education.

Two major national programmes were developed and adopted in 1996. The 'Bylim' ('Knowledge') programme was elaborated on the basis of educational sector reform and funded by the ADB. It envisaged the following major elements:

- maintaining universal access to basic education;
- enhancing the quality of instruction and the internal efficiency of the education system;
- ensuring financial sustainability of the educational system;
- elaborating legal norms and measures of educational development under market economy conditions.

Another major government programme, called 'Qualified Personnel for the 21st Century', had the following elements:

- the fostering of international co-operation in the area of education and science;

- stimulating the development of new technologies in support of education, such as distance education as a means of education delivery;
- reforming the curricula and replacing existing textbooks. The replacement of existing textbooks was started in 1993 and should be completed by 2002;
- reforming teacher training for higher education institutions;
- decentralizing educational administration and management and clearly dividing responsibilities between the national, regional, and local levels;
- mobilizing private-sector funding for additional financing of the education sector.

Kyrgyzstan is also an example of radical cost-reduction measures, first of all, staff costs. As a result of the IMF and ADB recommendations, the Kyrgyz government grouped together major social sectors under one super-ministry – Ministry of Education, Science and Culture – in charge of all levels of education in the country. With this merger, the number of civil servants was also drastically reduced.

In the area of education financial management and budgeting, Kyrgyzstan was one of the first countries in the region and within the former Soviet Union to experiment with and introduce many major changes. These included programme budgeting and various other financial diversification measures such as cost reduction, cost sharing, cost recovery, and income generation. The case study describes and analyses in detail these policies, changes and innovations.

Chapter I

The budget preparation process

1. General framework of budget preparation

As previously observed, Kyrgyzstan, after its independence in 1991, made significant progress in its transition towards a market economy and the achievement of macro-economic stabilization. The rate of inflation, once more than 1,000 per cent in 1992, by the late 1990s had decreased to less than 30 per cent a year.

Kyrgyzstan pursues a state policy that favours the sustainable development of the education sector. The latter is viewed as being one of the key sectors responsible for accelerating the transitional process. In 1996, despite the financial constraints, public expenditure on education was more than 5 per cent of the GDP and 25 per cent of total government expenditure. Due to this policy and the efforts of the civil servants within the education system, the country is able to sustain this adequate level, notwithstanding the difficulties of the transitional period. However, despite these efforts, readily available resources are not sufficient for implementing the education sector's objectives as defined by the Constitution and the Law on Education (Article 32).

To achieve the desired goals of continuity in the education sector, and to meet the needs of each individual and the nation as a whole during this critical transitional period, the government had to make additional efforts so as to realize the reforms. In 1995 it adopted a general strategy for education and training and launched a national educational programme called 'Bylim'. This

was to complement the already existing 'Qualified Personnel for the 21st Century' programme.

As regards the education system in Kyrgyzstan, it has the following levels:

- pre-primary and primary education (nursery schools, kindergartens, primary schools);
- secondary education has two components: (a) general secondary education – secondary schools, boarding schools, evening classes, campus-based secondary schools and secondary schools, which do not offer all grades of the secondary school cycle; (b) professional secondary education – professional and technical schools, 'special secondary' institutions (so-called technicums or technical colleges) and specialized vocational schools;
- higher education which also has two components: (a) universities and other higher educational institutions; (b) higher educational institutions not leading to a degree;
- auxiliary supporting services in the field of education – orphanages, specialized schools, specialized boarding schools, schools of music, and informal education.

Educational institutions in Kyrgyzstan are funded as a rule from the state budget. The volume of funding from the state budget was increased during the past years. For example, in 1993 educational expenditure was 227 million soms. In 1996 it rose to 1,117.6 million soms. Consequently, the portion of expenditure on education from the state budget rose from 16.6 per cent in 1993 to 22.8 per cent by 1996.

The economic crisis and inflation, however, have reduced the amount of funding of education in real terms. Education's share of the GDP was10 per cent in 1991, 6.7 per cent in 1994 and about 5 per cent in 1995.

State budget allocations to education are divided into republican (central) and local (regional) budgets. The republican budgets are in turn shared between various ministries and other governmental bodies. Regarding the ministries, these include: the Ministry of Education, Science and Culture, the Ministry of Health, the Ministry of the Economy, the Ministry of Agriculture, the Ministry of Labour and Social Safety, the Ministry of the Interior, the Ministry of Transport. The republican authorities provide funding for higher education, so called 'secondary special' (technical colleges), professional and technical institutions. But it is worth noting that the major part of the total consolidated budget for education is allotted by the local (regional) public authorities for primary and secondary levels.

The total volume of public expenditure on education in 1997 was 1,476.2 million soms. This was made up of 535.1 million soms from the republican budget with the remainder coming from the local (regional) budgets. This shows that the share of various local (regional) budgets in the total education budget is very high. All in all, total expenditure on education comprised about one quarter (23%) of the country's consolidated budget.

As regards the Ministry of Education, Science and Culture, it is directly responsible for the funds coming from the central (republican) budget. These funds cover 92 educational institutions: 2 kindergartens, 1 day-time musical school, 1 boarding school of music, 4 regular boarding schools, 15 specialized boarding schools, 5 orphanages, 1 computer gymnasium, 7 informal education institutions, 26 'special secondary' schools (the so-called technicums), 19 universities and other higher educational institutions, 3 staff-training and retraining colleges, 4 curriculum-development centres, and 4 central accounting departments (cost centres). This constituted about 7 per cent of the country's total consolidated education budget.

With the addition of another ten ministries in charge of various other educational institutions, the total central budget for education came to more than 500 million soms every year (10% of total central budget expenditure). Local (regional) authorities manage various categories of local budgets. The former comprise more than 60 regions, districts, city bodies and territories. As a rule, they allocate funding to primary and secondary schools, pre-school institutions and institutions of non-formal education. The share of these levels and categories of education in local (regional) budgets often exceeds 80 per cent of their total expenditure.

The local legislative assemblies are responsible for expenditure management, namely, the breakdown and allotment of funding within the limits of the available resources. The latter derive from the taxation of incomes and revenues. However, due to the local authorities' regular failure at being able to execute the income-side of their budgets, they have to turn to the republican administration for subventions and other forms of assistance to cover their debts and arrears. For example, in 1996 the local budget arrears in teachers' wages reached more than 30 million soms. Funds were subsequently obtained by drawing from the republican government's budget, bank loans, and other sources.

Different public enterprises and other economic entities also assisted by drawing from their incomes to selected 'special secondary' schools, pre-schools, and non-formal education institutions, by leasing space, repairing school buildings, and providing equipment and stationery.

In view of the current economic recession related to the transition to a market economy, the role of enterprises in educational funding is constantly decreasing. They prefer to delegate their responsibilities for any socially oriented institutions to the local authorities.

Private expenditure on education (parents, families, and communities) normally occurs in kind, for example, through the maintenance of primary, secondary and pre-school institutions, catering for children after hours, and helping with minor repairs.

Additionally, secondary and higher special institutions are allowed to admit so-called 'contract' (fee-paying) groups of students whose fees are then allocated towards repairs, maintenance, heating, etc. These institutions nowadays depend heavily on this source of income, which they are motivated to develop and expand further.

The annual amount spent by students on their education on average comes to about 3,000 soms. The income earned by higher education institutions is about 50 million soms (5% of the republican educational budget). By the late 1990s, 30 per cent of students at higher education institutions and 15 per cent of those at professional educational institutions of the Ministry of Education, Science and Culture were studying on a fee-paying basis. The income of private education institutions in 1996 was 20.9 million soms. Generally, statistics of expenditure on private education are not readily available.

In order to eliminate any obstacles to private schools and the practice of fee-paying classes, the Ministry of Education, Science and Culture proposed amendments to the Law on Education and to taxation practices. Accordingly, it was suggested that fee-paying classes be established on a contractual basis, and that there be tax exemption in situations where all extra-budgetary incomes are reinvested in education.

External aid goes towards the publication of textbooks, the supply of paper, school construction, organization of training courses at different levels, and establishing educational institutions and continuing-education programmes.

Within the last two years, three schools were built with foreign assistance. The Danish government provided a grant of US$122,000 for the publishing of 45,000 textbooks. It also supplied 1,000 tons of paper. Several universities were jointly opened (Kyrgyz-Turkish University, Kyrgyz-Uzbek College, among others). Fourteen Kyrgyz-Turkish lyceums were opened. Over 1,000 Kyrgyz students are studying abroad, mostly in Turkey. More than a dozen agreements in the area of education have been signed with foreign countries. There is also assistance in kind coming from international organizations in the form of clothes, food, etc.

Presently, a programme of technical assistance to the education sector is being elaborated on with the ADB. UNICEF (the United Nations Children's Fund) provides assistance with textbook development for the new national curriculum.

2. Budgetary process and time-frame for budget preparation

The law titled 'Main Foundations of Budgetary Legislation in the Kyrgyz Republic' stipulates the basic regulations for the preparation and implementation of republican and local budgets in Kyrgyzstan.

The national budgeting system of the Kyrgyz republic consists of separate republican and local (regional) budgets that are both grouped together under the consolidated state budget.

The Ministry of Finance annually makes aggregate projections of the key indicators for the coming year's state budget. This exercise is based on the previous year's results. Normally, the two documents – the draft budget for the coming year and the report on budget implementation for the current year – are submitted to the government according to a schedule.

In estimating budgetary expenditure at all levels, only those expenses that can be legally accounted for should be taken into account and included in the programming.

The republican budget guarantees funding for republican activities and programmes in social, scientific, and environmental areas, as well as special levelling grants to cover disparities between regions, and urban and rural areas.

The Ministry of Finance consolidates the budget proposals. It takes into account projections for social and economic development, as well as the anticipated governmental income for the current year.

The ministries and other government bodies submit the aggregate budget proposals for the republican budget, no later than 4 months before the following fiscal year. The Ministry of Finance strictly observes this procedure.

This Ministry reviews these budget proposals and the draft projections of income and expenditure, in consultation with the respective ministries, making, when necessary, appropriate adjustments. Then the consolidated draft republican budget is assembled and submitted to the government, no later than two months before the beginning of the next fiscal year.

The government experts again review the draft budget and prepare a number of comments. The entire set of documents, including the draft budget and accompanying comments and observations, is submitted to the Kyrgyz Parliament (called in Kyrgyz language 'Zhogorkyu Kenesh') no later than one-and-a-half months before the next fiscal year.

The draft republican budget is presented as a total amount of income (along with its sources), rather than as a total amount of expenditure. Each time, the categories and types of expenditure are classified according to the

approved classification of the ministries, other government bodies, and the authorities.

Permanent commissions in the Parliament then discuss the draft republican budget. These commissions have hearings when the ministries' and other government bodies' reports are aired. The same procedure applies to the local authorities regarding their budget proposals and appropriations. This is the moment when the different levels within the public administration have an opportunity to justify their budgets, to explain them to the members of the Parliament, and to make requests for adjustments, revisions, and additional allocations.

The Parliament adopts the republican budget as a total amount of income balanced with the total amount of expenditure. This decision also identifies the amounts of recurrent and development budgets, together with the maximum deficit amount. Furthermore, it breaks down the consolidated budget for each sector: industry, agriculture, education, health, etc. For example, according to its decision of the 6 December 1996, the Parliament set its total consolidated budget for education at 1,476.2 million soms for the 1997 fiscal year. Out of it, central budget for education in 1997 was divided between the ministries and government bodies as follows:

Ministries, government bodies	Soms expressed in millions
Ministry of Education, Science and Culture	246.8
Ministry of Labour and Social Protection	65.3
Ministry of Health	13.1
Others	209.9
Total	535.1

The remaining 941.1 million soms was planned for educational expenditure from local (regional) budgets.

Local budgets, as defined by the Law, comprise the budgets of all the regions, the city of Bishkek, districts, cites, and districts in cities and towns where the local authorities (the 'Keneshes' in Kyrgyz language) exercise their powers and execute their functions.

The local authorities (the 'Keneshes') exercise legislative authority in that they are able to

- determine the local budgets;
- increase, within the limits of available funds, their local norms of expenditure for education, health, and other social sectors.

It is the local administrations that establish the schedules for the preparation of local budgets. In line with these schedules, the local bodies in charge of finance then make budgetary projections, taking into account transfers for central (republican) taxes, expenditures incurred, etc., so as to devise ways to finance local budgets – regions, cities, districts, and the 'ail' (which in Kyrgyz language is the lowest level within the public administration). Any remaining amounts of the residual incomes – this is usually money that remains after the transfers of taxes and charges to the central (republican) budget – can be maintained by local administrations. The draft budget estimations are then submitted to the local administrations and legislative bodies.

After their adoption according to legislative procedures, the local budgets are submitted in a 'bottom-up' fashion to the upper levels of the public administration. This is to ensure that they are properly included in the consolidated budgets of the regions, districts and cities.

The financial authorities of the regions and the city of Bishkek submit their respective, provisionally adopted budgets to the Ministry of Finance, so that these can be included and aggregated into the consolidated republican budget.

Listed below is the educational expenditure from local budgets for the 1997 fiscal year.

Cities and regions	Soms expressed in millions
Bishkek (city)	128.9
Djalal-Abat (region)	159.8
Issyk-Kul (region)	78.0
Naryn (region)	86.4
Chui (region)	129.4
Talas (region)	48.2
Osh (region)	330.7
Total	961.4

Despite the overall increase in educational expenditure, the situation has drastically deteriorated in terms of teaching and learning conditions, the lack of electricity and funds for heating during winter, shortages of textbooks, teaching equipment, and stationery. School buildings are in need of major repairs and maintenance. The curriculum does not correspond to the actual availability of necessary teaching equipment, laboratories, libraries, and so on.

Although population growth has slowed down, there is a growing need to build new schools.

Before the transition to a market economy, it was the state that was responsible for all the necessary expenditure on education. However, during the transitional period, to maintain the existing levels of adult literacy and learning achievements, it was imperative to compensate for the declining share of public funding of education. This was achieved by mixed financing based on: financial diversification, cost reduction, cost sharing, cost recovery, income generation and the development of various fee-paying services.

At present, the following sources of additional funding for education in Kyrgyzstan are being explored:

- the introduction of contractual, i.e. fee-paying educational services, such as advanced and specialized courses;
- an increase in the volume and number of fee-paying services, such as user fees for student ID cards and other documents, student hostels, sports, cultural and other facilities, studying on a contractual basis;
- the development of private education institutions (initially, higher education institutions and advanced quality schools);
- the development of mixed, private-cum-public education institutions with foreign countries (Kyrgyz-Turkish educational institutions, etc.).

Out of 49,744 higher education students for the 1995–96 academic year, 10,765 students (21,6% of the total) were fee paying. The growth in the number of fee-paying students will be drastically accelerating. For example, out of 13,580 admitted first-year students, 7,587 (56%) of the total admission were fee paying.

As regards the 'special secondary' schools, or the so-called 'technicums' (technical colleges), according to the Ministry of Education, Science and Culture, there were 11,851 students of which 1,671 were fee paying, that is to say 14,1 per cent of the total student number for the 1995–1996 academic year. Out of the 4,069 newly admitted students, 1,009 (one-quarter) were fee paying.

Private education is gradually developing, subject to real demand and the population's purchasing power. At present, 19 regular education schools are registered with a total enrolment of 1,800 students. At first, private education was considered a temporary phenomenon of the transitional period, but it has a strong potential to develop further together with increasing private consumption.

For the mid-term perspective, free education will be reserved mainly for low-income categories of the population and for target admissions into universities, based on the governmental projections of professions with shortages – specialists for sectors such as education, health, defence, etc.

As a major policy development in educational funding, extra-budgetary sources should be mentioned. These sources are also sometimes called the 'special' resources of educational institutions. They are acquired through income-generating activities.

The total consolidated budget for education in 1997 envisaged that 121 million soms would be earned from extra-budgetary resources. What transpired was that expenditure on heating, electricity, purchase of equipment, transportation, major repairs, etc. had to be funded from these resources for an amount of 59 million soms (48,7% of all extra-budgetary funds). The government's policy is to support and sustain income generation and cost recovery in education by creating favourable conditions and the appropriate legal basis for them.

Another significant source of educational funding is the grants and loans from international organizations and other foreign donors. Recently, US$3 million, 1,5 ECU and 1 million soms were received from foreign donors for school construction, textbooks, and the organization of computer classes.

The financial constraints and the need to control the deficit in the current accounts of the government make it essential to plan cost-reduction measures at the stage of budget preparation. Bearing this in mind, the Ministry of Finance recommended to all regions of the country the application of minimal norms of unit cost expenditure per student. The norms per unit cost are estimated as a function of the total expenditure on education that the Ministry of Finance can afford within the medium-term financial framework. These norms are developed and established in co-operation with the IMF.

There are still difficulties in developing these estimates and projections, due to the lack of qualified personnel. Technical errors often appear on the budget sheets, because of untrained staff who have been moved to this job from other assignments.

The government policy will continue to be strongly oriented towards increasing efficiency in public education spending, searching for alternative sources of funding for education, and building incentives and enhancing the motivation of educational institutions with a view to saving and the appropriate use of available funds.

3. Methods used for budget estimates

Local educational authorities (regions, districts, cities, etc.) provide basis for the budget preparation. They receive appropriate instructions telling them to keep it at the existing level, to continue its development, to implement qualitative and quantitative changes at all stages of the educational process, to create conditions for guaranteeing the constitutional clauses on education concerning access, quality, and development.

During the course of the budget's preparation, different parties have their specific interests:

- the representatives of the financial authorities from the regions are determined to reconcile their interests and demands within the budget's limits;
- the regional authorities wish to provide arguments for all their necessary activities, which they then adequately justify by citing the laws and the governmental programmes allowing various types of expenditure, even though these can be in contradiction to the available resources.

Budget negotiations occur at the following levels:

- educational institutions, where senior administrators are involved in the process;
- district and city levels, where the education authorities there are represented by their financial administrators;
- local administrative authorities and district financial authorities;
- between district public administrations, represented by their financial departments, and regional financial departments and regional public administrations;
- between regional public administrations, ministries and other governmental bodies, and the Ministry of Finance and the government bureaucracy as a whole;
- within the Ministry of Finance there are also various decision-making levels, namely, the divisions and departments, the upper-levels of the administration, and the decision-makers of the Ministry of Finance;
- budgetary and other commissions of the government and the Parliament, in consultation with the senior executive officers of the ministries, and regional public administrations supported by their financial and economic departments;

Finally, after consulting all the key interested parties, the Law on the annual budget is adopted by the Parliament.

As regards the behaviour of various actors, the cycle of negotiations for budget preparations occurs in a top-down manner:

It starts with consultations between the Ministries of Finance and Education, proceeding onwards till the level of the heads of departments of both Ministries. The senior management of both Ministries constantly monitors it.

There is a set of documents available to the executive powers that are essential for budget preparation and adoption. These are:

- estimates of expenditure by items, headings, chapters, and categories of budgetary expenditure;
- projections and justifications for the above;
- specially allocated centralized (consolidated) funds that have sectoral importance.

Specialists from the economic and other services of the respective ministries and governmental bodies prepare these documents. As planning represents an extremely difficult task, nowadays there are many sources of information and inputs, which are extensively used: workplans, indicative and perspective plans, demographic projections, and requirements of the ministries as well as entire sectors. The estimates will necessarily take into account not only sectoral priorities, but also the government's orientations, new international agreements, and political decisions by the government, Parliament, and the president according to hierarchy.

The Ministry of Finance has the legislative right to argue and downgrade the budget proposals, estimates, and projections of any ministry, including those of the Ministry of Education. This occurs should the budget proposals not be sufficiently justified or if they do not take into account other major priorities of the Parliament, the government, and the president to keep expenditure within the available resources. The Ministry of Finance equally has a right to re-allocate and adjust expenditure according to strategic objectives.

In this respect the position of the Ministry of Education may be weak because:

- incomplete estimates and projections may exceed the affordable resources of the Ministry of Finance;

- it suffers from a lack of staff capacity in quantitative and qualitative terms, a shortage of constant contact with the lower levels of the administration (because of insufficiently qualified staff), and finally, poor staff remuneration and a shortage of funds for staff training.

The negotiation process and working relations between the Ministries of Finance and Education are ongoing and business-like. However, the Ministry of Finance has a recurring problem, namely, the deficit of funds. But this is not the only major drawback it faces. Often, the Ministry of Finance has to wait for political decisions and guidance regarding where expenditure is to be made. Expenditure allocation occurs in conformity with the political priorities of the legislative bodies. It has natural obstacles, such as the longer-than-planned elaboration of legislative documents, weak legislative bases, insufficient numbers and coverage of legislative and instructional documents, and a lack of prescriptive mechanisms for implementation and execution.

For these reasons, the Ministry of Finance has to establish strict budgetary ceilings. It is obliged to inform all the ministries of their own ceilings. Ideally, these should not violate the legitimate rights of each ministry. However, they serve the necessary purpose of downgrading the volume of financing in each case, so that the collective pie can be proportionally divided between all the ministries in conformity with the political priorities of the government. The Ministry of Finance has a right to establish very strict limits and/or adjustments in the course of budget preparation and implementation, following the immediate government priorities when funds are allocated to the most urgent bottlenecks. Of course, this may lead to serious budgetary adjustments and financial constraints for certain ministries, including the Ministry of Education.

As regards budget hearings in Parliament, it is the Minister of Finance who presents and defends the draft budget, following the request of the government, according to the Law on the Budget. At the same time, the Ministry of Education has an opportunity to convey its requests and demands

through parliamentary commissions and the respective members of Parliament, who have vested interests in the area of education. However, the Minister of Education does not have the right to legislative initiative. This right lies with the government of Kyrgyzstan.

The existing methodology for estimating expenditure on education is still based on a 'top-down' approach, using the previously established norms and standards regarding quantity and volume. These norms were traditionally used under the centrally planned economy, when resources were more or less sufficient for their application, according to each category of expenditure. Thereafter, budget estimates were grouped together at the different levels of the local and republican administrations. This incremental approach, based on vertically centralized decision-making, resulted in the final adoption of education budgets at the top level, without any real consideration of the regional, local and institutional interests, priorities and specifics.

After the government and Parliament had approved the education budget, allocations were divided and distributed according to the lower administrative levels and categories of expenditure. The expenditure was then adjusted at the regional level, to bring it in line with the funds that were actually available. The main limitation of this obsolete budgeting system was, on the one hand, its inability to meaningfully allocate the shrinking resources, and on the other, to identify real priorities and areas of possible cost reduction, better cost efficiency, and income generation. The lower levels of the educational administration were not motivated to search for alternatives to public (central) sources of funding. The deficiencies of this approach became evident with the transition to a market economy and related budget cuts and austerity measures.

Chapter II

Procedures for budget implementation and allocation of expenditure for education

1. Budget implementation

To increase the efficiency of the use of government funds in the Kyrgyz republic, a treasury system was created. According to this system, after the adoption of the Law on the budget, each ministry has to submit its estimates of income and expenditure to the Ministry of Finance. Detailed budget estimates are required of each department/division, and only after that does the Ministry of Finance authorize the necessary expenditure. Due to the deficit in budgetary expenditure, the release of funds is done weekly (previously it occurred quarterly). As a rule, the major priority of funding constitutes salaries, pension funds, school meals, and student fellowships.

On a weekly basis, the special budgetary commission at the Ministry of Finance makes projections of the balance of incomes and expenditures for the critical categories of budgetary financing (education, health, science, culture, etc).

Based on the volume of this funding, the department within the Ministry of Finance, dealing with the different sectors, allocates funds to the ministries and informs them accordingly. The Ministry of Education is obliged to divide its share amongst the different beneficiaries, such as technical and professional schools, boarding schools, etc. It presents its invoices to the treasury. Thereafter, the funds are transferred directly to the educational establishments.

To control and guarantee the appropriate use of expenditure, the Ministry of Finance set up the Department of Internal Auditing, which reviews and controls the operations of the central and regional treasuries.

There are further measures to increase the efficiency of budget implementation:

- special regulations are being developed to make adjustments in cases of insufficient performance on the income side of the state budget. This is to guarantee expenditure on the vital categories and to avoid new arrears;
- to limit expenditure obligations by establishing special ceilings for each quarter, based on the anticipated income projections;
- the budgeting commission thoroughly reviews budgetary performance from the previous quarter, and establishes priorities to anticipate the lower levels of income.

With a view to strengthening control over budgetary expenditure, another system of strict control was introduced as of November 1, 1997. On a pilot basis, additional expenditure forms/obligations were introduced for the main spending ministries, i.e. the Ministry of Education, Science and Culture and the Ministry of Health.

This strict system of control over expenditure allocations is based on disbursements, subject to the amount of available funds in the consolidated republican budget. But normally, these are insufficient and less than initially planned. At the same time, it serves the purpose of guaranteeing the most important categories of expenditure during times of severe financial constraint. This system has the ultimate objective of preventing large arrears in financing the social sectors.

To go into further details, a special system of regulations and authorization was developed to control budgetary expenditure. This was called 'expenditure forms'/'obligations'. These obligations are formal letters, which authorize

the provision of funds and specify the exact target area of expenditure and its purpose. Equally, these letters clearly stipulate the responsibilities of the persons who assume responsibility for this obligation.

This system of budgetary control proved to be an effective and efficient way of ensuring the adequate distribution of presently limited budgetary funds, in strict conformity with the priorities of the annual budget allocations. Reports on budgetary expenditure should clearly identify actual expenditure and obligations, in conformity with the approved republican budget.

To this end, each responsible officer (minister, deputy minister, specially appointed officer, etc.) assumes clearly defined responsibilities to execute such budgetary controls. Consequently, all budgetary allocations designated for specific ministries and other government bodies, should pass through the authorized officers in the various ministries and government bodies. These have to report on any inquiry, concerning expenditure incurred directly, to the budgetary commissions of the government, the Chamber of Accounts of the republic, and finally the Parliament.

This accounting system enables the following tasks, aims, goals and objectives:

- to pursue the target ceilings and indicators of budget implementation;
- to prevent wide arrears in expenditure on the various ministries, as a result of excessively high expenditure obligations;
- to enable the elaboration of adjustments for target ceilings and indicators, during the course of budget implementation;
- to build up an adequate system of reporting and monitoring, so as to ensure appropriate control over budgetary expenditure, and to strengthen the responsibility of the officers in charge of the execution of and accounting for public funds.

These requirements will certainly necessitate overhauling numerous budgetary regulations. But this is essential for strict control over budgetary expenditure, not only at the central level but further down at the level of the local authorities.

2. Main principles of budget expenditure on education. Regulations for financing of 'line' ministries

The system of budgetary expenditure is based on quarterly approved obligations, following the regulations and priorities determined by the budget commission of the Kyrgyz government. These are made from the actual implementation of the state budget, namely, its income side. It is on this basis that the budgetary plan for the forthcoming quarters of the fiscal year has been adopted.

Thereafter, the budget committee of the Ministry of Finance, chaired by the Minister of Finance, adopts the ceilings on a monthly basis, subject to the actual and anticipated government income and cash flows.

The department within the Ministry of Finance, dealing with the different sectors, takes into account the outcome of the budget committee of the Ministry of Finance. Accordingly, it prepares the estimates for the monthly allocation of funds.

This important procedure is based on a monthly amount of 'protected' categories of expenditure, as adopted by a special plan. Other essential elements are operational expenditure, financial obligations from international agreements, contracts and projects, and payments still due from the state budget. The obligations divide the total amount. They grant credit and release funds to finance the expenditure.

The role of the Central Treasury Office of the Ministry of Finance is to review and control this expenditure funded by the state budget, and to allocate it accordingly by budget lines and items to each ministry and other public bodies. The ministries have an exceptional right to move funds between their heads in consultation with the Ministry of Finance.

In the expenditure form, one can see the volume of funding established by the budget commission of the government for the coming quarter, as well as the cumulative volume of expenditure.

These forms are filled in on the basis of actual receipts by the government or other extra-budgetary funds. The forms are then sent to government entities before the beginning of the planned period.

In cases where, prior to the beginning of the planned period, there are arrears from the previous period, these should be shown on the forms.

The same system of expenditure control also exists for the regional departments/divisions of the sectoral ministries and other administrative bodies and organizations funded by the respective local budgets.

Consequently, the release of funds and budgetary allocations should fall under the authority of the Kyrgyz government.

The Central Treasury Office of the Ministry of Finance, and its regional branches, oversees the release of funds and budgetary allocations to the entities and bodies of the Ministry of Education, Science and Culture and the Ministry of Health. Again this is made on the basis of anticipated results of the income-side of the respective budgets and other extra-budgetary sources.

With a view to the equal and equitable allocation of public funds, the Central Treasury Office grants credit (weekly in equal tranches), to the various

regional organizations and bodies of the above ministries. To this end, the monthly amount of allocations is split into four parts.

In cases where the amount of receipts is lower than planned, there is an adjustment made through budgetary cuts and retrenchments. If it is necessary to take such painful measures, certain categories and items of expenditure should be considered as 'protected' and maintained under all circumstances. The categories include salaries, pension allocations, fellowships, medicines, feeding subsidies, other subsidies to low-income categories of the population, allowances, etc. For other categories of expenditure, budgetary cuts are recommended and regularly practised.

The Ministry of Finance, and the immediate budget division in charge, should make an advance decision on the application of such drastic measures.

3. Regulations for filling out expenditure forms ('orders')

To improve the control over budget implementation, accountability, and reporting, operations related to the disbursement of funds to the ministries and other public bodies are made through special expenditure forms (called 'orders'), serving the purpose of obligation or commitment of funds. There are different types of these expenditure forms.

Type of expenditure form	Goal of expenditure	Body/person signing the form
General	Expenditure allocations in accordance with estimates of the adopted annual budget, as approved by the director-general of the Central Treasury	Minister of Finance
Financial	Budgetary allocations designated for operational expenditure of ministries and other budgetary bodies	Director-general of the Central Treasury

(a) The general expenditure form

After the adoption of the Law on the budget, the Minister of Finance signs the general expenditure forms, thereafter, she/he delegates responsibility for subsequent budget operations to the director of the Central Treasury. Then budget operations can be made in conformity with established and approved amounts for specific objectives. The general expenditure forms for budgetary allocations to the 'line' ministries and other government bodies are prepared for a quarter of the fiscal year (three months). This makes it possible to either decrease or increase the quarterly volume of expenditure, if necessary, on the basis of decisions of the budget commission of the government.

The general expenditure form is prepared in exactly the same way and according to the same structure as the estimates for total budget expenditure. This procedure was put in practice to strengthen the control over actual expenditure on education and other social sectors.

(b) The financial expenditure form

The budgetary department of the Ministry of Finance prepares the financial expenditure forms on the basis of the volume of budgetary allocations adopted by the budget committee of the Ministry of Finance. Afterwards, they are signed by the director-general of the treasury and sent to the respective ministries. The heads of the ministries and departments, who are responsible for exercising control over this expenditure form, are directly accountable for the release of funds, their allocation and actual spending, as well as ensuring financial constraint at the level of their ministries and other government bodies. Budgetary expenditure by the ministries and other government bodies, funded from the republican budget, is executed by means of the budgetary forms.

Financial expenditure forms are prepared on a monthly basis. This permits the responsible heads/officers to plan their activities within a short-term perspective and to determine the priorities for budgetary allocations to subordinate departments, divisions, units, and other organizations and bodies at the lower levels.

4. Funding of wage bill of teaching and non-teaching staff

Since independence in 1991, the Kyrgyz government, the Parliament, and the president have adopted a number of legislative acts and measures to strengthen control over expenditure and to improve the ability of projecting different categories of expenditure by the government, especially such vital as wage bill of civil servants. In 1993, in order to simplify the procedures for determining salaries and the remuneration of civil servants, the government, in consultation with the Ministry of Education, adopted the Law on the Unified Framework of Remuneration. On this basis, the Ministry of Education together with the Ministries of Finance, Labour and Social Protection worked out and

adopted a procedure for estimating the salaries of the personnel, subject to their education, training, professional experience, and the scientific degrees required for professional responsibilities.

According to this government procedure, the estimated salaries of personnel in educational institutions increased, on average, by 20 per cent for certain categories of staff. This was dependent on their qualifications and ranking within the unified framework of remuneration and statutory workload, calculated on the basis of a minimal statutory wage for civil servants. These measures are applied, irrespective of duty station and geographical location of the job. The remuneration of personnel in educational institutions situated at a height of 2,000 meters or more above sea level is increased by 20 per cent, as a rule.

In 1995, due to better and more effective spending of government funds, the Ministry of Education, Science and Culture established standards and norms for the organization of personnel, staffing patterns in education, and performance indicators. The maximum capacity of standard classes/groups in regular day schools was estimated. This made it possible to significantly decrease the number of administrative and service personnel.

The expenditure on teachers' salaries at primary and secondary schools is estimated on the basis of the number of teaching positions and the average monthly remuneration. The number of positions per class is determined in accordance with the teaching plan and the curriculum. At the 'special secondary' and vocational and technical institutions, expenditure for teacher salaries is estimated on the basis of the average annual number of classes/ groups, the number of contact/teaching hours for each position, and the average cost per hour of teaching. At higher educational institutions, estimates of the teacher salaries take into account the number of teaching positions and the average cost of each position. Estimates of the total number of teaching

personnel are made on the basis of the ratio of undergraduates and post-graduates per teacher/ lecturer.

The wages and salaries of staff in the supporting services and the administration are determined according to the estimation standards and norms applicable to personnel organizations. These include the staffing patterns and wage structures.

The payroll of educational institutions does not include personnel from self-financing departments – those administering accommodation, running laundries, and the school canteens.

The legislative acts of the government set the standards and norms for the organization of personnel and staffing at primary and secondary schools. Regarding other educational institutions and levels, these standards and norms are in the process of revision, and will be estimated by *ad hoc* legislative acts of the government.

5. Allocation of expenditure to the regions

Expenditure allocations to the regions are calculated according to adopted estimations taken from the following:

- teacher salaries. Their calculation is based on a unified framework of remuneration, the standards and norms applicable to personnel organizations, and the staffing and ranking according to echelons. The salaries are prepared and adopted on the basis of the type of educational institution, work experience, qualifications, category and number of teaching and non-teaching hours;
- existing criteria are controversial, as they do not guarantee decent standards of living, nor do they correspond to the minimal wage and salary levels, and hence they may, therefore, be violating human rights;

- the existing policy of expenditure allocation takes into consideration the disparities in the development of different regions. It then determines the value of various coefficients for indemnities and allowances, in addition to the wages and salaries for those situated in mountainous, remote, and rural areas. Night shifts, hazardous, and low-esteem occupations are also included.

This system of expenditure allocation is acceptable for routine management. However, it is not completely satisfying, mainly because of budget constraints, especially as the existing level of minimal wages and salaries is too low.

The salaries of the different categories of non-teaching personnel are based on the unified framework of remuneration. As a rule, the volume of financing does not meet all the expenditure demands. Consequently, the arrears for payments of wages and salaries are growing. Moreover, during the fiscal year, the volume of financing is revised, adjusted and often decreased.

The central structure of the Ministry of Education, Science and Culture consists of 84 full-time civil servants.

The Ministry of Education, Science and Culture's budgetary allocation to its various departments/divisions was 24.9 million soms in 1994, 83.2 million soms in 1995, 126.5 million soms in 1996, and 263.4 million soms in 1997. The expenditure went towards salaries, travelling expenses, the purchase of equipment and stationery, school meals, transportation, heating and electricity, fellowships, repairs, and other services. Due to financial constraints, salaries, pension funds, welfare allocations, school meals and fellowships are considered to be 'protected' categories. Hence, they are financed as a major priority.

For the time being, one of the main objectives of the government's current economic policy is to set up a public sector, which will be able to function effectively under the conditions of a market economy, and which will provide for the rationalization of tax revenues and sound fiscal regulations. The goal of the government's programme of reforms in the social sector is to revise the budgetary system and the procedures of budget preparation and implementation, in order to make the budget an effective instrument of state economic policy. Taking this into consideration, the government has started the process of integrating the budget into the general macro-economic framework. Henceforth, budget preparation will ideally fall within the medium-term financial framework.

Changes to the process of budget preparation should make the budget a planning instrument. Its implementation should become compulsory and imperative, and it should reflect the main priorities of government policy. To realize these objectives, a special legislative act created a budget commission, which is charged with defining the priorities of budget preparation. The main aim of this commission is to co-ordinate the process of budget preparation and implementation with overall government policy. The following elements must be considered:

- the budgetary time-frame. The process of budgetary preparation should begin earlier than previously;
- the budgetary instructions. In the budgetary instructions sent to the ministries, it is necessary to impose strict limits on total amounts of expenditure for each ministry, in order to reconcile ministerial demands with budgetary constraints. This system should allow ministries to define expenditure priorities within these limits. In the budget estimates for 1997, the Ministry of Finance already began to impose such limits;
- budget expenditure estimations. In the draft budget for 1998, ministries and local authorities discontinued preparing expenditure estimations based on physical (costing) norms. Instead, new methods were used for expenditure estimates, their justification, and the evaluation of spending

(cost analysis) on programme implementation. The ministries prepared their working plans, made estimates of their activities within the established global limits, (i.e. the expected funds and resources to be received) and autonomously determined and defined categories of expenditure.

To ensure the universal nature and global coverage of budgetary expenditure for 1998, all 'specialized' accounts, namely, those which earned funds through income-generating activities like various duties, fees, charges, fares, etc., and which previously were considered as extra-budgetary, were now included in the calculations. Moreover, measures and actions were adopted to ensure that all sources allocated to republican capital expenditure and investments were included in the draft budget for 1998 and in budgetary estimations for the mid-term perspective. In order to provide a legal basis for such budgetary processes, procedures and regulations, the government is revising the Law on Main Foundations of Budgetary Legislation.

The budgetary system's effective functioning depends on the development of financial relations between different levels of authority. As it is well known, income from local budgets comprises transfers from the republican tax revenues and local incomes. Until recently, a number of regions also received subventions from the republican budget. The local budgets are primarily responsible for expenditure on important areas such as education and health. However, the existing financial relations between the local authorities and the central budget encourage local authorities to raise and exaggerate their expenditure estimates, with the hope of increasing the volume of allocations to them from the central level's total tax revenues and subventions.

In fact, increasing expenditure on local authorities does not reflect nor stimulate efforts to increase income. The local expenditure priorities are not well defined. In such important areas of concern as education and health,

financing is not always sufficient. This creates significant arrears in the payment of civil servants and other staffs' salaries. On the other hand, expenditure for other categories may be excessive. In general, the existing system of financial relations between the central government and local authorities creates disparities across regions in generating total republican income. Furthermore, annual revisions and an adjustment of the norms of transfers and subventions from the republican tax revenues eliminate the regions' autonomy and financial planning results in the area of the budget.

Since 1997, subventions from the centre have been eliminated. Additionally, new norms have been introduced for transfers from republican tax revenues to local budgets, in all the regions. These are supposed to be constant for at least several years.

In order to ensure at least minimal standards of service in education and health care, and to improve overall state control of these critical social sectors, since 1997, a guaranteed minimum of services in these areas has been provided. This was achieved by introducing a system of 'categorial' grants from the republican budget for local budgets – the salaries of civil servants and other staff in the social sectors are to be financed from the republican budget. Additionally, 'levelling' grants have been introduced from the republican budget for local budgets. These aim at eliminating disparities in the levels of social and economic development across the regions. The amounts of the 'levelling' grants allocated to the regions depend on the volume and potential of the local income.

In sum, new principles and types of relations between the central and regional authorities will allow for

- the elimination or reduction of social tension in the regions, by means of financing the guaranteed minimum of social services from the republican (central) budget;

- the achievement of greater equality in the income base of the regions, and an increase in efficiency and motivation for tax collection;
- the expansion of the responsibilities of the different levels of authority in the actual allocation and release of expenditure.

As a part of the programme of management reorganization of central funding of the public sector, a new model of central expenditure has been prepared. It will permit moving away from the existing system of resource distribution, whereby disparities in income levels varied from region to region, and which were then alleviated by means of republican subsidies and later by various transfers. Although the system of 'categorial' and 'levelling' grants was already introduced in the draft budget for 1997, additional efforts need to be made in this direction.

In the draft republican budget for 1998, the following formula for estimating the total government expenditure is applied. Accordingly, the amounts of the republican grants are calculated by econometric methods, which rely on a combination of statistical, social, and economic factors. These factors are:

- population statistics;
- data on income per capita;
- data on health care, cultural, and other social areas;
- data on the minimal level of expenditure by categories and sectors;
- other statistical, economic and social factors, and indicators.

An important condition for the effective functioning of this model is stability in the unified norms of transfer from the republican tax revenues – these are estimates made by the government that should not change for at least three years.

The model, first of all, defines the joint (common) resources' fund (the 'pull') for further allocations and reallocations across the regions. This fund

is based on the provision of minimal standards of social services, particularly education and health care. The model is made up of three components of vertical and horizontal levelling, which are applied to the distribution of the joint (common) fund across regions and sectors. The three components consist of:

- stable, unified norms of transfers from the republican tax revenues to the regional (local) budgets (fixed at 35%);
- 'categorial' grants aimed at financing basic services in the areas of health care and education, and the salaries of civil servants in those sectors;
- 'levelling' grants distributed across the regions from the joint (common) fund of 'levelling' grants.

In the draft budget for the next fiscal year, the volume of 'categorial' grants was calculated by multiplying the weighted amounts of constant variables by the minimal standard of services in the areas of education and health, with a per capita adjustment. The 'categorial' grants were estimated on the basis of applying numerous formulae, indicators, and subsequent adjustments by regions, categories of expenditure, and population income groupings.

The application of formulae, based on demographic factors, presents a radical shift from traditional methods of regional (local) budget preparation, particularly from the method of estimating expenditure based on the number of personnel and educational institutions. As a rule, local authorities have purposefully raised these numbers and, as a consequence, distorted the real demand and needs of the regions in the financing of expenditure. It is worth noting that nowadays, local authorities sometimes still apply the out-of-date generalized methods of expenditure estimates in the social sectors.

New and advanced expenditure norms, in areas such as education, should be calculated together with the Ministry of Finance and the Ministry of

Education, Science and Culture. They should be based on factors such as the numbers of students, schools, classes, lessons, teaching hours, school meals, salaries, infrastructure, and other expenses.

The method of grant estimation is based on calculating the desired value by applying the population figure to a weighed correlation, as adjusted to different sample groups of the population, by the respective public educational authorities' required needs for the provision of various educational services. The sizes of the grants for regions are calculated on the basis of adjustments made to a set of coefficients, namely, whether areas are urban, rural, mountainous, remote, etc., and their respective shares of the funding.

In 1998, in comparison to previous fiscal years, the 'categorial' grants were unequally distributed between regions. This is explained by the fact that, in the grant estimates for 1998, demographic factors – based on official data from the republican Committee on Statistics – were taken into account as base indicators, and their value was overestimated.

These and other statistical, social and economic data were adjusted to population growth and then applied to the formula determining regional shares in the joint (common) fund of 'categorial' grants. These shares were, in turn, applied to estimations of the levels of overall grant spending for each region. As an experiment, the volume of 'categorial' grants was calculated by multiplying the average weighed amounts (unit costs per pupil) by minimal expenditure per capita.

Changing the mechanism of 'categorial' grant allocation for education may help to accelerate the process of structural rationalization of educational institutions. For the time being, however, 'categorial' grants are allocated for primary and secondary school teachers' salaries.

Their estimates are based on factors such as the numbers of students in regions and their distribution, depending on the types of educational institutions and the various locations (city, village, and mountainous area). The reallocation of grants (for financing the entire sector or, when there are budgetary constraints, only certain types of institutions within a sector) may encourage local authorities and the Ministry of Education, Science and Culture to accelerate the rationalization of educational institutions and their staff, and the system of staff deployment. This could be done, not on the basis of outdated workload norms (even if they are revised), but according to the number of enrolled students.

Chapter III

Improvements in methods of budget estimates and expenditure for education

1. Existing problem areas in educational budgeting

In theory, highly qualified and competent staff is required for economic growth during a transition period. This is linked with financing of the social sectors, particularly, education as a government priority. Until recently, the level of universal education and health care in the republic was high. However, within a centrally planned administrative system, these sectors' activities were aimed at meeting the demands of a static command economy. Nowadays, radical changes to the system of financing the social sectors are needed, because of following three reasons:

- the changing requirements needed to meet the diversified demand of a market economy;
- the significant decrease of state (government) income, due to the decline in economic production (or at least its very slow recovery);
- the necessary improvements in the existing budgetary procedures for education.

In the area of education, the first reason calls for a shift in expenditure priorities, in favour of the market economy's demand for potential human resources. This necessitates reforms, which will guarantee receiving new, broad-based skills based on demand, and that will encourage people to actively participate in the life of the society. It is imperative to solve problems such as preserving (and in some cases providing) equal access to primary, secondary,

and professional education, and creating training systems, which will prepare students to be economically, socially, and politically competent to participate in the new society. Additionally, it is necessary to provide rational management of all educational institutions and effective financing of the educational system.

The second reason – decline in the volume of production and as a result, republican income constraints – has resulted in a budgetary crisis in the health and education sectors. The main consequence of this, is a significant decrease in the quality of services in both sectors and a decline in the standard of living.

The final, but no less important, reason for forthcoming financial reforms in the social sectors is the need to modify the process of republican expenditure allocation, which still has the features of central planning.

Under the previous conditions of a 'command' (centralized) economy, the financing of education was carried out on the basis of strict norms, without questioning concrete needs. Consequently, it led to the wastage of resources. Administrative and teaching personnel were not motivated to effectively allocate and spend the available resources. This, in turn, resulted in excessive staff involvement in educational management and delivery, and inflated, unjustified unit costs per pupil, group, school, and teacher.

The restructuring of the system of financing education could result in increased administrative efficiency of educational institutions (internal efficiency). Changing the curriculum would result in better external efficiency. This should meet students' and parents' demands for advanced and improved education and training. Educational finance and budgeting reform would facilitate rather than hamper access to education. The government should guarantee access to high-quality education. This might require the transfer of resources across regions in order to alleviate existing disparities.

Thus far, educational expenditure estimates have been prepared on an incremental 'bottom-up' basis. In order to obtain funding to continue the existing activities and programmes employing the present physical and human resources, local government bodies sent expenditure requests to the Ministry of Finance, with a breakdown by categories. Meanwhile, the Ministry of Finance was not able to determine the priorities in educational expenditure allocations, because, until recently, the main objective of financing and expenditure allocation was to meet the overall needs of the health care system and all institutions of education.

The preparation of budget expenditure estimates throughout the different levels of administration was based on strictly defined government norms regarding physical quantities and volumes. These included the number of students per teacher, the number of classes/groups per educational institution (depending on the level of instruction), or the norms for school meals per pupil/student.

On the basis of these norms, expenditure estimates were made for each economic category of classification of all educational institutions (for example, kindergarten, primary or secondary school). Then, different levels of local and republican authorities (district, region, the Ministries of Education and Finance), assembled these estimates in the form of consolidated expenditure, in order to prepare projections for the consolidated republican expenditure for the next fiscal year.

After Parliament's approval of the consolidated expenditure across regions (on the basis of the volume of transfers from tax revenues and 'categorial' grants), decisions on expenditure allocations across regions and for each sector (education, health care) were made at the regional level. Thereafter, responsibility for expenditure throughout institutions was delegated to the district administrations.

At the republican level, the ministries were obliged to make adjustments to their expenditure estimates, if necessary, in conformity with the approved budget. Previously, all these adjustments in the republican and local budgets were made for each economic category, and not by type of programme activity. Taking into account that salaries and welfare allocations are considered as so-called 'protected' categories, the necessary cuts are made for other categories, particularly utilities, repairs, maintenance, transportation, and some other non-essential categories of expenditure.

The most serious disadvantages of the previous budgetary process and procedures were:

- the lack of strategic planning on behalf of the government and the Ministry of Finance. Until recently, the government and the respective ministries' financial priorities and their costs were not clearly outlined in the budgetary estimates;
- the absence of a list of overall and sectoral priorities meant that the projection of budgetary spending did not allow for the reallocation of existing and supplementary resources to and within certain sectors;
- the practice of an erroneously interpreted 'equalized' expenditure allocation system, through which all sectors and institutions received their proportional share of total government funding. This practice caused constant shortages in the financing of certain underfunded activities and institutions, and discouraged income-generating activities even in sectors and institutions which had good potential to earn on their own;
- the use of a very complicated system to determine the actual cost of activities and programmes in social sectors, such as education, due to the lack of a methodology for defining accurate and precise cost elements and their estimation;
- the allocation of budgetary resources on the basis of existing physical and quantitative norms, undermined the motivation to search for cost-saving and cost-reducing alternatives in the social sectors, especially at institutional and local levels of administration.

As a result, typical characteristics of the previous, state-budgetary system were constant financial shortages, the lack of independent decision-making, and continuously shrinking amounts of available public resources. While salaries and welfare allocations were and are so-called 'protected' categories of expenditure, all the others were considered to be 'residual', meaning that they should have been funded from the funds remaining from the essential 'protected' categories of expenditure.

Consequently, the quality of services in the social sectors was constantly declining. People had to work in poor conditions, sometimes with no heating, water or materiel supplies. In other words, the infrastructure of the education and health care systems was deteriorating. The lack of motivation amongst the staff, working under conditions of arrears in actual salary payments, made for a poor quality education service.

Therefore, the most important objective to consider, in view of the persisting financial constraints in educational funding, would be a revision of the existing system of resource allocation between various social sectors. Ultimately, the expected outcome should be the financing of major priority areas in education. It has become imperative to completely change the underlying principle of resource allocation for services, programmes, and activities that meet the critical demands and basic needs of the population under the conditions of a transition to a market economy, and the concomitant scarcity of public funding for the social sectors.

2. Adopting a new system of budgeting

For the last few years, actual expenditure has not differed from realistically projected expenditure. Real income, however, has been lower than the estimates. It is worth noting that the creation of a system of treasury

controls improved the financing of schools and higher educational institutions, and enhanced control over targeted spending of resources.

In order to unify expenditure according to the IMF recommendations, a new classification of republican budgetary income and expenditure was introduced. In conformity with this, a new classification of the responsibilities of the government bodies and agencies was also adopted.

Expenditure on each educational institution is based on the new classification system. This classification distinguishes four structural levels: head, chapter, line and item. Head corresponds to the sector of government activity (i.e. Ministry of Education, Science and Culture), chapter, line and item correspond to the levels of functional characteristics of government expenditure within the sector of activity.

For example:

1.	expenditure for goods and services (chapter)
1.1	salaries of the labour force and the civil servants (line)
I.1.01	base salaries of the labour force and civil servants (item)
I.1.02	allowances and benefits other than salaries (item)
I.1.03	bonuses (item)

Allocations and disbursements are made on a quarterly basis, after having prepared expenditure estimates according to the above-mentioned system of classification. For the last few years, due to budget constraints and a shortage of revenues from taxes, allocations and disbursements have been made selectively on a monthly rather than a quarterly basis, and sometimes these have been made in tranches. This creates difficulties with accountability and it increases the volume of paperwork. Due to budget constraints, the volume of allocations and disbursements is often revised and re-estimated.

The services responsible for the release and allocation of budgetary expenditures are the economic departments and central accounting offices of the various ministries and other government bodies. The Ministry of Finance's sectoral and budget divisions determine the volume of allocations on the basis of tax revenues and income. According to the adopted legislative acts, the Parliament as well as the Ministry of Finance have the right to verify, investigate, suspend or permit funding of the ministries and other government bodies.

Within the bounds of the available resources, the Ministry of Finance, (its accounting office and the officer responsible – the warrant holder), makes decision on: priorities, amounts and the time-frame of financing; types of 'positively discriminated' institutions; as well as the sequence and schedule of the funding. The statistical information used to control budgetary expenditure is based on the application of a unified framework of remuneration, salaries, ranking of the different echelons of payment, and the accounting offices' reports on the categories of spending.

New approaches to budgeting and the system of resource allocation should stress the following major criteria:

- defining key goals (expected outcomes and results) in the social sectors within a mid-term perspective;
- determining the range of activities that should necessarily be financed in order to achieve the stated goals;
- determining priorities among the defined activities;
- making cost estimates for these activities;
- taking into consideration and adopting only those major priorities which are really urgent and important and that can be fully financed within a reasonable time-frame.

This newly applied budgeting system (often called programme-based budgeting) was elaborated with advice from the IMF and the ADB. It implies a set of methods for preparing budgetary expenditure on programmes and activities, which are considered to be major, essential priorities at government level, within a mid- to long-term perspective.

The objective of the new programme-based budgeting is to prevent decreasing real and priority expenditure on education and health care (as well as other sensitive social sectors related to the social safety net) by means of focusing resources on a limited amount of priorities. The available expenditure is aimed at fulfilling the clearly defined governmental goals and to search for low-cost, cost-saving measures to achieve the desired policy goals.

The main advantages of 'programme-based budgeting' are:

- budgetary estimates are made within a mid-term perspective, in order to better reconcile projected expenditure with the volume of expected resources, and to determine expenditure allocations;
- heads of ministries and other decision-makers are motivated to define priorities in their sectors;
- budget expenditure is made in accordance with priorities aimed at fulfilling the adopted political goals and objectives;
- transparency of the entire budget income and expenditure, i.e. all expenditure estimates are well defined and articulated;
- responsibility for budgetary preparation is delegated directly to executive bodies (particularly the Ministry of Education, Science and Culture and the Ministry of Health).

In conformity with the 'Basic Guidelines for Budget Preparation for 1998-2000', it is envisaged that the whole process of budget preparation should be made on the basis of 'programme-based' planning. Additionally, a

shift to three-year budgetary planning for all state budget-related organizations has been approved and programmed.

3. Procedures for a programme-based budget

The preparation of a programme-based budget implies setting up specific working groups within the various ministries, which should work out a strategy within a mid-term perspective, in accordance with the republican (i.e. countrywide) priorities. The proposed scheme of budget preparation consists of 5 stages, each of which is discussed below.

(a) Defining and determining republican policy priorities in sectors

At the onset of the first stage, it is imperative to define specific republican (countrywide) objectives, which the various ministries should achieve during the mid-term period. For certain ministries, these priorities are already defined in such political programmes as the so-called Bylim Programme (for the Ministry of Education and related bodies and organizations) or the Manas Programme (for the Ministry of Health and related bodies and organizations).

All the goals, which are defined by ministries as sectoral priorities, should be re-evaluated in accordance with the republican strategy. Only those which fully correspond to the republican objectives, such as the guaranteed access of the population to education and health care services, or measures ensuring the quality of these services, should be considered as major priorities. In determining priorities, it is also important to evaluate the feasibility of their financing and the capacity to implement them adequately. Thereafter, it is necessary to work out guidelines and terms of reference for their implementation.

(b) Determining programmes by sector activities

The second stage consists of defining and determining programmes and subprogrammes, which are indispensable to the fulfilment of sectoral objectives and the adoption of necessary measures within each programme and subprogramme. Programmes imply a number of measures aimed at achieving major republican goals that are related to public policies within each sector.

Each programme should include measures designed for one specific ministry. For example, the programme of activities designed for the Ministry of Education may provide for projects on teacher training, but not for activities involving the training of agricultural workers.

(c) Defining the cost of the programmes

The third stage involves estimating the costs of activities that have been defined during the preceding stages. It is at this point in particular, that one is able to see the advantages and differences of the new budgeting system compared to the old one. In the old system, expenditure estimates were based on physical norms and ceilings that to some extent were limited by previous years' volumes of expenditure. In contrast, the programme-based budget allows for the analysis of the resources necessary to achieve desired policy objectives.

During stage three, the budget preparation is divided into two major parts. This is to

- determine the recurrent expenditure (salaries, scholarships, meals, medical costs, maintenance, etc.) and capital expenditure necessary to achieve the expected results within a certain time-frame;
- estimate the overall expenditure by summing up the recurrent and capital expenditure on the basis of applying expenditure norms/standards.

Each programme's expenditure is planned several years ahead by applying forecasts, projections, assumptions, and resource estimates within a mid-term perspective.

During the process of expenditure estimation, it is desirable to obtain as precise a calculation as possible of the expected outcomes and values of key indicators for macro-economic performance. These calculations include the rate of inflation for the years to come, population growth, (especially for the health care services), the growth in the number of children within certain age groups (especially for the education sector), etc.

At the micro-level, such indicators have significant influence on, for example, expected salary increases or changes to the number of staff in a sector.

Moreover, in order to make realistic expenditure estimates for specific services, it is critical to work out new cost norms/standards for the education sector. Such cost norms/standards are widely applied in many countries. In estimating them, it is imperative to consider a number of factors. In particular,

- the different levels of education (for example, pre-primary, primary, secondary), since these each have different financial requirements and needs;
- the exact location of institutions (for example, rural institutions tend to be smaller in size, while other aspects of their functioning result in increases in their unit costs, compared to urban institutions);
- the type of students in educational institutions (specialized schools for the handicapped need more funds for purchasing additional, specialized equipment, etc).

(d) Determining alternative means to implement programmes

At this stage, the programme's overall expenditure estimates should be compared with the budgetary limits (ceilings) of the corresponding ministries and regions within a mid-term perspective. In the case of insufficient resources, ministries or regions have to make their own decisions on the necessary budgetary cuts for a certain period of time, in accordance with established priorities. Some less-essential or non-essential activities and programmes will be either completely discontinued or receive less funds.

(e) Preparing annual and mid-term budgetary estimates within a sector

Expenditure estimates for the next fiscal year, as well as the two successive years, are made on the basis of priorities prepared by the ministries or the regions. Thereafter, the current and capital expenditure estimates are submitted to Parliament, in accordance with the programmes for each ministry and region.

Another advantage of the so-called programme-based approach to budget preparation is the increased interaction between the different levels of budget preparation, execution, and decision-making. Firstly, while working out financial priorities, the Ministry of Education Science and Culture should actively co-operate with its regional branches and departments in order to make realistic decisions. Secondly, in estimating expenditure for corresponding programmes, all funds aimed at sectoral development and expansion, regardless of financial sources, should be included. Thirdly, responsibilities for budget allocation are equally distributed between republican and local levels, while the various ministries should continue to play a co-ordinating role.

The preparation of a programme-based budget is an extremely important strategic aspect for defining the policy of ministries and regions. It is an important tactical aspect, when it comes to determining each sector's financial resources and their ways of spending. Below is a tabular proposal for a possible, mid-term, budget-preparation scheme for the education and health sectors for 1999.

Budget cycle for education budget preparation in Kyrgyzstan

Stage/step	Responsible body	Time-frame
1. Determining priorities in government objectives and specific measures for their implementation	Government, Ministry of education, regions	January- February
2. Determining programmes within sectors	Ministry of education, regions	February- March
3. Preparation of expenditure estimates for each programme	Ministry of education, regions	March- April
4. Evaluation of expenditure estimates in terms of available and expected resources	Ministry of education, regions	May
5. Preparation of overall expenditure estimates	Ministry of education, regions	April – preliminary estimates, June – final estimates
6. Preparation of budget estimates for submission to the government	Ministry of finance	August
7. Submission of draft budget to the Parliament	Government	August

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Appendices

Chart 1. Organization chart of the Ministry of Education, Science and Culture and institutions under its supervision (as of 6.2.1997)

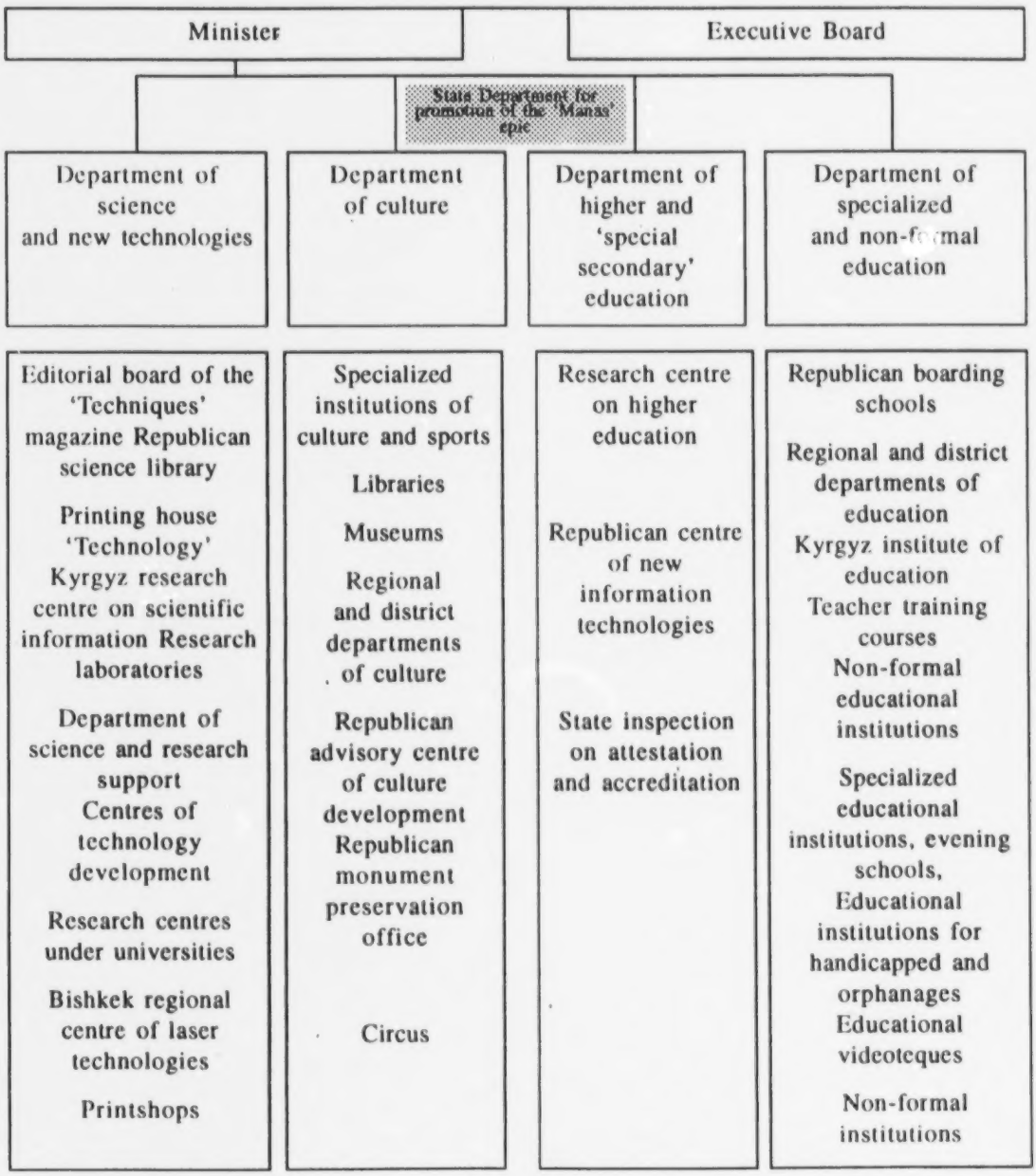
Minister
Executive Board
State Department for promotion of the 'Manas' epic
Department of science and new technologies
Department of culture
Department of higher and 'special secondary' education
Department of specialized and non-formal education
Editorial board of the 'Techniques' magazine Republican science library
Printing house 'Technology'
Kyrgyz research centre on scientific information Research laboratories
Department of science and research support
Centres of technology development
Research centres under universities
Bishkek regional centre of laser technologies
Printshops
Specialized institutions of culture and sports
Libraries
Museums
Regional and district departments of culture
Republican advisory centre of culture development
Republican monument preservation office
Circus
Research centre on higher education
Republican centre of new information technologies
State inspection on attestation and accreditation
Republican boarding schools
Regional and district departments of education
Kyrgyz institute of education
Teacher training courses
Non-formal educational institutions
Specialized educational institutions, evening schools,
Educational institutions for handicapped and orphanages
Educational videoteques
Non-formal institutions

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Chart 2. Educational system of Kyrgyzstan

Years of studies				Non-formal education**	Age of students
8	**Postgraduate education** (Ph.D. and other degrees, retraining courses)				24
7					23
6	**Complete higher** (Master's degree) **education**		**Higher professional education**		22
5					21
4	**Initial higher education** (Bachelor's degree)				20
3					19
2	Professional secondary education ('secondary special')	Incomplete higher education			18
1					17
11		Complete secondary education	Professional and technical education		16
10					15
9	2 level General secondary education*				14
8					13
7					12
6					11
5					10
4	1 level General primary education				9
3					8
2					7
1					6
0	Pre-primary education				5

*1 and 2 levels of general primary and secondary education are free and compulsory for citizens of Kyrgyz republic (it is called basic education)

**Non-formal education may include education at musical, art schools, different educational centres, special courses for children as well as for adults.

Table 1. Evolution in number of classes, pupils and teachers in primary and secondary education by regions and school years in 1993-1998

Regions	1993-1994 school year			1994-1995 school year			1995-1996 school year		
	Number of			Number of			Number of		
	Classes	Pupils	Teachers	Classes	Pupils	Teachers	Classes	Pupils	Teachers
Osh	13,929	328,884	24,889	14,127	335,726	24,527	13,656	344,731	24,330
Djalal-Abat	8,053	186,932	12,965	8,098	188,800	13,276	7,770	193,022	13,036
Talas	2,253	19,030	3,938	2,251	49,129	3,993	2,186	49,175	4,031
Issyk-Kul	4,006	89,904	8,002	3,915	89,539	8,027	3,833	91,759	7,645
Chui	6,148	135,685	9,068	6,178	137,406	9,294	5,896	141,883	8,860
Naryn	2,926	68,414	6,120	284	65,357	5,821	2,512	63,326	5,269
City of Bishkek	2,834	74,868	4,680	2,937	77,981	4,458	2,911	84,104	4,790
TOTAL:	40,149	933,717	69,662	37,790	943,948	69,396	38,764	968,000	67,961
Pupil/teacher ratio		13			13.6			14.2	

Table 1. (continued)

Regions	1996-1997 school year			1997-1998 school year		
	Number of			Number of		
	Classes	Pupils	Teachers	Classes	Pupils	Teachers
Osh	14 089	358 984	24 146	14 676	371 524	25 018
Djalal-Abat	7 928	200 791	13 375	8 489	209 117	13 644
Talas	2 166	49 777	3 899	2 218	50 265	3 787
Issyk-Kul	3 888	94 605	7 384	3 900	96 558	7 056
Chui	6 094	145 591	8 396	6 244	150 213	8 825
Naryn	2 602	63 735	5 260	2 656	65 270	5 215
City of Bishkek	2 972	89 423	4 750	3 107	93 782	5266
TOTAL:	39 739	1 002 906	67 210	41 290	1 036 729	68 811
Pupil/teacher ratio		14,9		15,1		

Table 2. Evolution in number of students and teachers at higher education institutions under the Ministry of Education, Science and Culture in 1993-1997 school years

Institutions	1993-1994		1994-1995		1995-1996		1996-1997		1997-1998	
	Number of		Number of		Number of		Number of		Number of	
	Students	Teachers	Students	Teachers	Students	Teachers	Students	Teachers	students	Teachers
Kyrgyz state national university	7 492	937	6 439	831	5 429	719	4 142	509	5 268	580
Kyrgyz technical university	3 600	516	2 933	406	2 505	386	2 180	334	1 856	348
Kyrgyz institute of architecture and construction	1 666	330	1 380	337	1 254	302	1 114	290	1 117	306
Kyrgyz institute of mining and metallurgy	626	51	619	77	625	92	620	77	612	97
Kyrgyz academy of agriculture	2 162	370	1 848	385	1 734	332	1 425	262	1 386	273
Kyrgyz state institute of sports	1 057	170	872	159	805	136	805	122	794	129
Bishkek university of humanities	2 578	352	2 182	352	2 207	275	2 125	250	2 190	252
Kyrgyz state university of pedagogy	2 382	306	2 107	263	2 071	245	1 665	242	1 651	209
Kyrgyz state academy of arts	74	27	87	26	103	25	112	35	111	35
Osh state university	4 467	622	4 219	667	4 181	489	4 143	600	4 019	629
Osh technological university	986	159	1 053	152	1 147	175	1 201	234	1 289	191
Kyrgyz-Uzbek university	-	-	75	10	166	20	260	43	439	49
Kyrgyz-Russian university	111	16	323	40	568	59	819	88	1 063	102
Naryn state university	-	-	-	-	-	-	245	27	478	51
Issyk-Kul state university	2 020	225	2 046	238	2 129	237	1 729	226	2 107	237
Djalal-Abat state university	511	59	886	140	1 319	199	1 668	241	1 921	313
TOTAL:	**29 732**	**4 140**	**27 069**	**4 083**	**26 243**	**3 691**	**24 253**	**3 580**	**26 301**	**3 801**

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Table 3. Estimates of expenditure for educational institutions under the Ministry of Education, Science and Culture for 1998

Budget classifications by article	Budget year	TOTAL:	Wagebill 1.1.0.0	Welfare 1.2.1.1	Travel within the country 1.3.1.1	Purchase of equipment 1.3.1.1	School meals 1.3.2.3	Water, gas, heating 1.3.3.1	Transport 1.3.3.3	Other expenditure	Fellowships 3.4.2.1	Repairs 4.0.0.4
4.3.1.1 Higher education	1996	75 092,8	30 639,8	10 604,5	9,2	320,6	25,8	10 384,9	76,3	798,9	21 762,9	469,1
	1997	102 111,2	39 736,0	13 708,9	30,0	950,0	150,0	12 130,7	500,7	6 176,	26 228,0	2 500,0
	1998	233 384,9	49 573,4	17 102,8	1 111,2	31 335,8	1 540,9	44 243,3	2 731,7	26 763,4	27 194,3	31788
4.2.2.2 Primary and secondary education	1996	18 182,5	7 371,9	2 524,5	12,6	10,0	100,2	2 924,9	9,6	243,0	4 879,3	106,1
	1997	28 191,5	8 379,2	2 890,8	44,0	326,3	202,0	7 525,5	216,0	2 334,0	5 829,0	444,4
	1998	44 096,5	9 364,3	3 230,6	219,2	2 633,6	280,7	12 949,4	762,9	4 298,4	5 084,0	5 273,4
4.4.0.2 Staff training	1996	1 255,0	743,9	256,6	1,6	8,7		215,3	0,3	28,6		
	1997	1 590,5	693,3	239,2	1,6	20,0		477,0		160,0		
	1998	5 756,1	1 195,2	412,3	27,3	200,0		773,6		203,3	49,2	2 895,0
4.4.0.3 Pedogogy	1996	1 890,2	314,6	107,6	1,2					1 466,9		
	1997	87 944,4	340,4	117,4	1,0	3,0		6,7		85 175,9		2 300,0
	1998	18 532,1	550,3	189,8	132,6	147,4	30,0	7,7	2,0	17 472,3		
4.6.0.6 Centralized accounts	1996	233,7	150,3	51,2	6,0	25,0		0,5		0,7		
	1997	344,2	218,5	75,4	17,0	28,0		3,3		2,0		
	1998	414,1	238,1	82,2	23,8	36,0		13,4	6,0	14,6		
4.5.0.4 Non-formal education	1996	3 314,0	1 410,1	469,6	0,3	5,9		656,4	5,5	452,2		314,0
	1997	3 317,3	1 485,0	512,3	7,0	10,0		746,0	12,0	530,0		15,0
	1998	6 463,0	1 719,6	602,3	53,2	747,2	1,0	1 685,1	99,0	876,2		679,4

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Table 3. (continued)

Budget classifications by article	Budget year	TOTAL:	Wagebill 1.1.0.0	Welfare 1.2.1.1	Travel within the country 1.3.1.1	Purchase of equipment 1.3.1.1	School meals 1.3.2.3	Water, gas, heating 1.3.3.1	Transport 1.3.3.3	Other expenditure	Fellowships 3.4.2.1	Repairs 4.0.0.4
4.5.0.2 Boarding schools	1996	12 869,5	4 508,5	1 555,6	26,8	293,0	3 100,0	2 006,8	169,0	294,8		915,0
	1997	17 439,2	6 435,4	2 220,2	39,0	490,0	4 298,9	2 479,1	381,6	320,0		775,0
	1998	29 962,3	8 094,7	2 792,4	86,6	2 772,8	7 847,9	4 937,2	549,9	1 190,9		1 689,9
4.2.1.4 Schools for handicapped	1996	6 206,7	971,6	335,5	-	400,0	1 973,5	1 943,1	33,0	110,0		440,0
	1997	6 091,8	1 191,4	411,0	-	800,0	1 795,4	1 454,0	50,0	90,0		300,0
	1998	12 108,7	1 486,1	508,5	-	1 020,4	2 666,0	2 118,9	142,7	478,5	-	3 687,6
4.5.0.1 Orphanages	1996	4 483,0	1 114,5	381,0	37,0	432,0	1 637,5	268,0	76,0	192,0	-	345,0
	1997	5 814,7	1 466,4	505,9	40,0	400,0	2 025,4	777,0	100,0	250,0	-	250,0
	1998	10 723,7	2 236,1	771,4	65,9	1 516,6	3 336,2	1 321,4	147,6	625,3	-	703,2
4.2.3.1 Sports	1996	420,1	147,4	50,3	0,5	12,0	14,6	3,7	2,0	186,6		3,0
	1997	551,4	147,4	50,8	1,0	20,0	40,0	17,2	8,0	264,0		3,0
	1998	659,0	160,8	57,8	8,0	82,0	34,0	19,4	14,0	230,0	40,0	13,0
8.0.2.1 Printshops	1996	224,6	147,0	50,9				16,7		10,0		
	1997	318,9	174,1	60,1	1,0	24,6		21,1	1,0	37,0		
	1998	340,6	189,9	66,0	1,0	24,6		21,1	1,0	37,0		
8.0.3.3 Village libraries	1996	243,0								243,0		
	1997	263,6	169,4	58,4						35,8		
	1998	981,6	290,9	107,4	12,0	45,0		14,4		511,9		
GRAND TOTAL:	1996	124 200,1	47 372,6	16 336,4	95,2	1 507,2	6 851,6	18 403,6	371,7	4 026,6	26 642,2	2 593,0
	1997	253 978,7	60 436,5	20 850,4	181,0	3 071,9	8 511,7	25 637,6	1 269,3	95 375,6	32 057,0	6 587,7
	1998	363 422,6	75 099,4	25 923,5	1 740,8	40 561,4	15 705,7	68 104,9	4 456,8	52 702,0	32 327,5	46 729,6

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Table 4. Consolidated expenditure for public education in 1996-1997 (in thousands sums)

Code	Article	Consolidated budget		Central (republican) budget				Regional budget	
		1996	1997	1996		1997		1996	1997
				Total	Including Ministry of Education	Total	Including Ministry of Education		
1101	Wage bill	528 636,6	598 859,9	82 965,6	53071	91 999	61 499,3	445 671	506 860,9
1211	Welfare	187 838,7	223 658,5	28 468,6	18 304	31 709,8	21 192,1	159 370,1	191 948,7
1311	Travel	0	0						
	Within the country	1 643,1	1 702,8	120,8	104	248,6	218,4	1 522,3	1 454,2
1312	Travel	0	0						
	Abroad	9	6,7	9	9	6,7	6,7		
1321	Purchase of equipment	9 333,1	12 145,2	2 040,7	1 676	4 358,1	2 809	7 292,4	7 787,1
1322	Purchase of medicine	10	36					10	36
1323	School meals	73 250,8	70 456,5	31 371,9	8 290	33 653,2	10 035,4	41 878,9	36 803,3
1331	Water, gas, heating	182 079	185 465,2	32 888,8	20 868	65 177,2	42 013,8	149 190,2	120 288
1333	Transport	6 111,5	4 771,6	569,4	489	1 046	738,4	5 542,1	3 725,6
1341	Other expenditure	39 061,7	47 969,3	8 875,3	5 006	13 899,3	9 200,1	30 186,4	34 070
3421	Fellowships	44 418,9	49 403,9	38 614,9	27 522	40 388,1	27 107,2	5 804	9 015,8
4004	Repairs	25 766,3	35 259,1	5040	3 599	15 198,6	12 045	20 726,3	20 060,5
		0	0						
	TOTAL:	**1 098 158,7**	**1 229 734,7**	**230 965**	**138 938**	**297 684,6**	**186 865,4**	**867 193,7**	**932 050,1**

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Table 5. Aggregated statistics on public education by level of instruction and consolidated expenditure in 1994-1998

	1994	1995	1996	1997	1998	1995 to 1994 (%)	1996 to 1995 (%)	1997 to 1996 (%)	1998 to 1997 (%)	1998 to 1994 (%)
Number of pre-school institutions										
Number of pre-school institutions	427	397	371	377	377	93	93	102	100	95
Number of children accomodated	52 247	44 168	41 358	42 050	42 637	85	94	102	101	97
Average number of children per institution	122	111	111	112	113	91	100	100	101	102
Number of staff, i.e.		11 155	9 954	9 765	9 750		89	98	100	87
Teaching staff		5 260	4 522	4 490	4 490		86	99	100	85
Non-teaching staff		5 895	5 432	5 275	5 260		92	97	100	89
Children/teacher ratio		8	9	9	9		109	102	101	113
Expenditure (000 soms)	59 565	72 018	74 553	94 401	114 079	121	104	127	121	158
Including wagebill and welfare (000 soms)		34 245	33 175	34 836	42 411		97	105	122	124
Unit cost per pupil	1 140	1 631	1 803	2 245	2 676	143	111	125	119	164
Same without wagebill		855	1 000	1 417	1 681		117	142	119	197
Primary and secondary schools										
Number of schools	1 816	1 819	1 830	1 839	1 840	100	101	100	100	101
Number of pupils	943 900	946 555	972 489	1 012 773	1 042 716	100	103	104	103	110
Number of classes	40 087	39 834	39 156	39 901	40 262	99	98	102	101	101
Pupils per school	520	520	531	551	567	100	102	104	103	109
Pupils per class	24	24	25	25	26	101	105	102	102	109
Number of staff, i.e		105 969	102 582	102 865	103 363		97	100	100	98
Teaching staff		70 904	69 863	70 517	71 062		99	101	101	100
Non-teaching staff		35 065	32 719	32 348	32 302		93	99	100	92
Pupil/teacher ratio		13	14	14	15		105	104	102	111
Expenditure (000 soms)	372 341	630 144	676 603	675 326	822 143	169	107	100	122	130
Including wagebill and welfare (000 soms)		503 791	509 302	501 157	615 419		101	98	123	122
Unit cost per pupil	395	666	696	667	789	169	105	96	118	118
Same without wagebill		133	172	172	198		129	100	115	149

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Table 5. (continued)

	1994	1995	1996	1997	1998	1995 to 1994 (%)	1996 to 1995 (%)	1997 to 1996 (%)	1998 to 1997 (%)	1998 to 1994 (%)
Boarding schools										
Number of schools	32	32	31	29	29	100	97	94	100	91
Number of pupils	8 111	7 242	6 205	7 421	7 285	89	86	120	98	101
Number of classes		387	351	362	367		91	103	101	95
Pupils per school		226	200	256	251		88	128	98	111
Pupils per class		19	18	21	20		95	116	97	106
Number of staff, i.e		2 593	2 819	2 531	2 531		109	90	100	98
Teachers		821	842	890	890		103	106	100	108
Non-teaching staff		1 772	1 977	1 641	1 641		112	83	100	93
Pupil/teacher ratio		9	7	8	8		84	112	99	93
Expenditure (000 soms)	23 095	29 552	31 988	43 955	55 722	128	108	137	127	189
Including wagebill and welfare		13 483	12 824	16 275	19 972		95	127	123	148
Unit cost per pupil		4 081	5 156	5 923	7 649		126	115	129	187
Same without wagebill		2 219	3 089	3 730	4 907		139	121	132	221
Vocational and technical schools										
Number of schools	105	105	105	105	105	100	100	100	100	100
Number of students	36 125	30 109	21 959	22 447	21 644	83	73	102	96	60
Number of classes	1 308	1 070	954	930	721	82	89	97	78	55
Students per school	344	287	209	214	206	83	73	102	96	60
Students per class	28	28	23	24	30	102	82	105	124	109
Number of staff, i.e.	11 034	9 009	7 163	6 266	6 245	82	80	87	100	57
Teachers	2 347	2 121	1 780	1 303	1 472	90	84	73	113	63
Non-teaching staff	6 641	4 372	3 921	3 581	3 592	66	90	91	100	54
Pupil/teacher ratio	15	14	12	17	15	92	87	140	85	96
Expenditure (000 soms)	81 207	90 400	85 300	111 382	101 560	111	94	131	91	125
Including wagebill and welfare	34 717	39 200	36 393	34 329	37 613	113	93	94	110	108
Unit cost per pupil	2 248	3 002	3 885	4 962	4 692	134	129	128	95	209
Same without wagebill	1 287	1 700	2 227	3 433	2 955	132	131	154	86	230

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Table 5. (continued)

	1994	1995	1996	1997	1998	1995 to 1994 (%)	1996 to 1995 (%)	1997 to 1996 (%)	1998 to 1997 (%)	1998 to 1994 (%)
'Special secondary' schools										
Number of schools	46	46	46	44	44	100	100	96	100	96
Number of students	21 889	18 343	16 823	16 854	15 607	84	92	100	93	71
Number of classes	783	755	721	660	595	96	95	92	90	76
Students per school	476	399	366	383	355	84	92	105	93	75
Students per class	30	30	30	30	30	100	100	100	100	100
Number of staff, i.e.	7 502	6 978	6 364	5 459	5 250	93	91	86	96	70
Teachers	3 835	3 716	3 188	3 085	2 876	97	86	97	93	75
Non-teaching staff	3 667	3 263	3 176	2 374	2 374	89	97	75	100	65
Expenditure (000 soms)	36 620	50 396	51 007	66 872	73 721	138	101	131	110	201
Including wagebill and welfare	13 315	24 780	25 618	27 612	32 497	186	103	108	118	244
Unit cost per pupil	1 673	2 747	3 032	3 968	4 724	164	110	131	119	282
Same without wagebill	1 065	1 397	1 509	2 329	2 641	131	108	154	113	248
Higher education institutions										
Number of institutions	18	19	21	21	21	106	111	100	100	117
Number of students	34 430	31 919	29 514	27 695	25 269	93	92	94	91	73
Students per institution	1 913	1 680	1 405	1 319	1 203	88	84	94	91	63
Number of teaching staff	4 832	4 657	3 859	3 673	3 397	96	83	95	92	70
Number of non-teaching staff	6 864	6 682	5 972	5 934	5 580	97	89	99	94	81
Student/teacher ratio	8	8	9	9	9	99	105	98	100	101
Expenditure (000 soms)	48 345	76 173	89 096	116 213	125 152	158	117	130	108	259
Including wagebill and welfare	18 179	45 594	49 716	57 410	68 849	251	109	115	120	379
Unit cost per student	1 404	2 386	3 019	4 196	4 953	170	127	139	118	353
Same without wagebill	876	958	1 334	2 123	2 228	109	139	159	105	254

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Table 6. Target numbers of pupils in primary and secondary education by regions for 1998 (000)

Regions	Total number of pupils	Admission to grade 1	Admission to grade 10	Graduates from grade 9	Graduates from grade 11
Osh	382,4	44,3	21,2	31,2	15,5
Djalal-Abat	212,2	25,2	12,3	16,8	9,8
Talas	51,1	5,8	4,0	4,5	3,1
Issyk-Kul	99,2	11,2	7,4	8,8	5,7
Chui	151,8	17,1	8,7	11,7	7,3
Naryn	64,8	7,2	5,1	5,8	4,2
City of Bishkek	94,0	10,3	7,0	7,8	5,3
Under republican authority	0,8	n.a.	0,2	0,2	0,1
TOTAL:	1 056,5	121,5	65,9	86,8	51,0

Table 7. Number of pupils in primary and secondary education by regions in 1996 (000)

Regions	Total number of pupils	Admission to grade 1	Admission to grade 10	Graduates from grade 9	Graduates from grade 11
Osh	359,0	44,2	18,4	27,8	13,8
Djalal-Abat	200,8	25,2	11,3	15,7	7,9
Talas	49,8	5,7	3,6	4,0	2,9
Issyk-Kul	94,6	11,2	6,3	7,6	5,1
Chui	145,6	17,0	7,6	10,6	5,8
Naryn	63,7	7,2	4,7	5,5	4,1
City of Bishkek	88,6	10,3	5,7	6,5	4,0
TOTAL:	1 002,9	120,8	57,8	77,9	43,7

Table 8. Estimated number of pupils in primary and secondary education by regions in 1997 (000)

Regions	Total number of pupils	Admission to grade 1	Admission to grade 10	Graduates from grade 9	Graduates from grade 11
Osh	371,7	44,3	20,0	30,1	14,2
Djalal-Abat	208,4	25,2	11,7	16,2	7,8
Talas	51,1	5,8	3,8	4,4	2,8
Issyk-Kul	97,6	11,2	6,9	8,2	5,0
Chui	149,6	17,1	8,2	11,2	6,0
Naryn	64,5	7,2	4,9	5,8	3,6
City of Bishkek	92,6	10,3	6,8	7,8	4,9
Under republican authority	0,8	n.a.	0,2	0,2	0,1
TOTAL:	1 036,3	121,5	62,5	84,2	44,3

Table 9. Aggregated numbers of pupils in primary and secondary education in 1996-1998

Indicators	Measured by	1996 (report)	1997 (estimates)	1998 (target)
Total enrolment	(000)	1 002,9	1 036,3	1 056,5
Enrolment grades 1-4 and pre-school	(000)	474,2	473,2	471,1
Enrolment grades 5-9	(000)	423,9	446,4	462,0
Enrolment grades 10-11	(000)	104,8	116,7	123,5
Admission to grade 1	(000)	120,8	121,1	121,1
Admission to grade 10	(000)	57,8	62,5	65,9
Graduates from grade 9	(000)	77,9	84,9	86,8
Graduates from grade 11	(000)	43,7	44,3	51,0
Number of classes	Unit	39739	41 070	40488
Number of pupils per class	Pupils	25,2	25,2	26,1
Number of pupils in boarding schools	(000)	7,9	7,9	7,9
Number of pupils in boarding schools for handicapped	(000)	2,9	2,9	2,9
Number of pupils in orphanages	Pupils	528	528	528

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Table 10. Analysis of admission to grade 10 as compared to graduates from grade 9 by regions in 1996-1998 (000)

Regions	1996 (report)	1997 (estim.)	1998 (target)	1996 (%)	1997 (%)	1998 (%)
Osh	18,4	20,0	21,2	66,2	66,6	68,0
Djalal-Abat	11,3	11,7	12,3	72,0	72,2	73,2
Talas	3,6	3,8	4,0	87,4	86,4	87,4
Issyk-Kul	6,3	6,9	7,4	82,9	84,2	84,2
Chui	7,6	8,2	8,7	71,7	71,3	74,7
Naryn	4,7	4,9	5,1	85,4	84,5	87,9
City of Bishkek	5,7	6,8	7,0	87,6	87,2	89,7
Under republican authority	0,2	0,2	0,2			
TOTAL:	57,8	62,5	65,9	62,8	74,2	75,9

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The book

The following study was prepared within the IIEP project on capacity building in budgetary procedures for education in Central Asia and Mongolia. It provides an in-depth description and analysis of financial management and budgetary procedures for education in Kyrgyzstan, one of the former centrally-planned economies of the ex-Soviet Union. The case of Kyrgyzstan is interesting for practitioners and researchers due to its policy of accelerated transition to a market economy, with associated hardships for educational finance and budgeting. The country was obliged to make all possible efforts to pass through the difficulties and constraints of the transition period as quickly as possible in order to sustain the previous level of educational development and standards, and to achieve rapid transformation of the mechanisms of educational finance. This case study provides examples of application of 'programme-budgeting' techniques in education, global ceilings to replace the obsolete norms for budget estimates, measures for strict control over expenditure, fiscal discipline, cost-reduction, cost-sharing and income-generation, as well as private education development.

Educational financing and budgeting in Kyrgyzstan

The authors

The study on educational financing and budgeting in Kyrgyzstan was prepared by Mrs Symbat Dj. Rysalieva, Head of Department, Ministry of Finance, Kyrgyzstan, and Mrs Gulmira A. Ibraeva, Deputy Head of Economic Department, Ministry of Education, Science and Culture, Kyrgyzstan. *Their commitment and professional skills were essential for the comprehensive analysis presented in this monograph, and the success of the whole project.*

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